

MEGASTAR FOODS LIMITED

December 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	58.00	CARE BB+; Stable	Assigned
Long Term / Short Term Bank Facilities	183.00	CARE BB+; Stable / CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Megastar Foods Limited (MFL) are constrained by the modest scale of operations of the company with low profitability margins. The ratings also factor in competition from organized and unorganized players along with market dynamics to impact raw material availability and its pricing. The ratings also take into consideration the working capital intensive of the operations coupled with high debt repayments during FY25 (refers to the period April 01 to March 31). However, the ratings derive comfort from long-standing association with reputed clientele, comfortable financial risk profile and experienced Management and longstanding operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in scale of operations with total operating income (TOI) increasing above ₹400 crore along with sustenance of profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 8%.
- Improvement in debt coverage metrics with interest coverage ratio (ICR) of above 4.00x and Total Debt/PBILDT below 3.00x.

Negative factors

- Deterioration in the financial indicators with an overall gearing of above 2.00x and ICR of less than 2.00x.
- Moderation in PBILDT margin below 4.80% with decline in TOI below ₹230 crore on sustained basis.

Analytical approach: Standalone

Outlook: Stable

"Stable" outlook reflects CARE Rating Limited (CARE Ratings) opinion that MFL will continue to derive benefit from its long-standing experience of promoters in the industry.

Detailed description of key rating drivers:

Key weaknesses

Moderation in operational performance

The operational performance of the company moderated slightly by ~5% to ₹254.06 crore in FY24 owing to stock limits imposed on wheat during H1FY24 (refers to the period from April 01 to September 31). The profitability margins as reflected by PBILDT and PAT margin also remained low 5% and 2.43%, respectively, in FY24, from 7.74% and 6.39%, respectively, in FY23 as the company procured the raw materials high prices. However, the operational performance of the company has shown an increasing trend over the years. Furthermore, it is expected to improve in H2FY25 (refers to the period from October 01 to March 31) as reflected by TOI of ₹144.59 crore during H1FY25. The company has also enhanced its production capacity, which is expected to support the growth in scale of operations of the company over the medium term.

Working capital intensive nature of operations

MFL operating cycle moderated to 62 days as on March 31, 2024, as against 59 days as on March 31, 2023. The high operating cycle of the company is mainly attributable to inventory levels as the agricultural industry has to maintain stock levels according to the government policies (stock limit, pricing, etc.). Further, the inventory levels of the company are expected to stay elevated as on balance sheet date. However, the company's ability to maintain its operating cycle will remain a key credit monitorable.

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Competition from organized and unorganized players

The wheat market faces competition from both organized and unorganized players. Major corporations dominate the organized sector with advanced milling technology and extensive distribution networks. On the other hand, numerous regional mills cater to local markets, often focusing on traditional milling practices or specific varieties of wheat. This diverse landscape ensures a dynamic and competitive market environment. The company's ability to safeguard its profitability margins while managing its competition in an efficient manner will continue to be a crucial factor to monitor.

Market dynamics to impact raw material availability and pricing

Fluctuations in raw materials, particularly wheat, are often influenced by various factors such as weather conditions, which can significantly impact both supply and pricing. These disruptions can have a cascading effect on the entire production process, making it difficult for producers to plan and manage their operations effectively. Further, changes in government policies to have a direct impact on operational performance, as witnessed in FY24. Overall, the variability in wheat production and supply chain disruptions underscore the importance of developing resilient agricultural practices and supply chain strategies to mitigate these risks and ensure a stable supply of wheat. However, MFL, located in Punjab, benefits from the region's surplus wheat production, minimizing the impact of raw material availability due to its location. Furthermore, wheat being a commodity exposes the company to raw material price fluctuations risk. Any major fluctuations in the pricing of wheat, thereby impacting the profitability margins of MFL will remain a key monitorable.

Project stabilization and offtake risk for recently concluded capex

The company has recently concluded its capacity expansion of 360 MT (metric tonnes), totaling 710 MT, represents expansion in Milling with a total project cost of ₹109 crore. The company has availed a term loan of ₹59.66 crore along with preference allotment of ₹42 crore and the remaining ₹14.84 crore from internal accruals. The project implementation started in FY23 and concluded in the first half of November 2024 which was subsequently operational for production. The company achieving optimum production with offtake of the enhanced capacity will remain a key monitorable in near future.

Key strengths**Long-standing association with reputed clientele albeit customer concentration risk**

Over the years, the company has established a strong relationship with its clients, which is also reflected by repeated sales to them. However, the top 5 customers account for more than 70% of the total sales over the years, thereby exposing the company to customer concentration risk.

Comfortable financial risk profile

The overall gearing of the company improved to 0.62x as on March 31, 2024, from 1.27x as on March 31, 2023, owing to improvement in net-worth of the company. The issuer has sufficient gearing headroom to raise additional debt and equity for its Capacity expansion plans. However, the debt coverage indicators as reflected by Total debt to gross cash accruals and ICR moderated to 6.42x and 2.38x, respectively, as on March 31, 2024, as against 4.79x and 3.07x, respectively, as on March 31, 2023. The moderation in debt coverage indicators was primarily due to moderation in operational performance. CARE Ratings expects slight moderation in the capital structure of the company over the short to medium term owing to additional debt availed for capacity expansion and expected increase in working capital requirements of the company to support its growing scale of operations which will be partly funded using bank borrowings.

Experienced Management and longstanding operations

MFL has established a long and successful track record of operations in the food industry. Over the years, the company has grown by leveraging its extensive experience and understanding of market dynamics. Vikas Goel, Chairman and Managing Director, has over 30 years of industry experience and plays a crucial role in formulating and implementing business strategies, overseeing the company's expansion and overall management. Vikas Gupta, Managing Director, with over 20 years of experience, holds a Bachelor of Commerce degree and an Intermediate certificate from ICAI. He leads production, HR, and administration, and is actively involved in business development.

Liquidity: Stretched

The company has tightly matched cash accruals for FY25 against its scheduled term debt obligation. Further, since the procurement of the raw material is seasonal in nature, the working capital requirements of the company remain at elevated levels during the season. The average working capital utilization for the trailing twelve months ending September 2024 stood at ~49% with the highest average utilization of ~79% in the month of May 2024. The company's ability to manage its working capital

requirements efficiently will remain a key monitorable. MFL's current ratio and quick ratio stood at 2.07x and 1.35x, respectively, as on March 31, 2024 (PY: 1.38x and 0.79x, respectively).

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Other Agricultural Products

MFL, established in 2013, is a leading producer and supplier of wheat flour, organic wheat flour, and related products in India. Megastar's processing plant features modern BÜHLER machinery with a daily capacity of 350 MT. The company is committed to maintaining high-quality standards through rigorous testing and continuous innovation. MFL emphasizes the importance of delivering standardized food products to its clients and consumers. Adhering to Good Manufacturing Practices (GMP) and Good Laboratory Practices (GLP), Megastar ensures the highest standards of food safety, quality, and hygiene.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	267.53	254.06	141.69
PBILDT	20.71	12.70	6.19
PAT	9.65	6.16	1.94
Overall gearing (times)	1.27	0.62	1.94
Interest coverage (times)	3.42	2.98	4.15

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	FY28	58.00	CARE BB+; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	183.00	CARE BB+; Stable / CARE A4+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ST-Working Capital Limits	LT/ST	183.00	CARE BB+; Stable / CARE A4+	-	-	-	-
2	Fund-based - LT-Term Loan	LT	58.00	CARE BB+; Stable	-	-	-	-

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Puneet Kansal Director CARE Ratings Limited Phone: 91-120-4452000 E-mail: puneet.kansal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Rajan Sukhija Assistant Director CARE Ratings Limited Phone: 91-120-4452000 E-mail: Rajan.Sukhija@careedge.in Srishti Jain Rating Analyst CARE Ratings Limited E-mail: Srishti.jain@careedge.in

About us:

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